

Message Text

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PAGE 01 BRASIL 06187 161238Z

46

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 FS-01 ABF-01 PC-04 AID-20

CIAE-00 COME-00 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00

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AGR-20 NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 DODE-00

PA-04 USIA-15 PRS-01 DRC-01 /186 W

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R 161200Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5102

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 6187

E.O.11652: N/A

TAGS: EFIN, BR

SUBJECT: CRUZEIRO DEVALUATION AND BALANCE OF PAYMENTS FORECAST

REF: BRASILIA 5057

1. THE CENTRAL BANK OF BRAZIL ANNOUNCED EFFECTIVE AUGUST 15 ANOTHER DEVALUATION OF THE CRUZEIRO, THE SEVENTH THIS YEAR. THE LATEST DEPRECIATION OF 1.98 PERCENT, WHICH CAME 36 DAYS AFTER THE LAST SUCH CHANGE, BRINGS THE CUMULATIVE DEVALUATION SO FAR IN 1974 TO 12.94 PERCZNT. NEW CRUZEIRO/DOLLAR RATES ARE 6.98 FOR BUY AND 7.02 FOR SELL.

2. COMMENT: THE LTEST MOVE PROVIDES ANOTHER CONFIRMATION THAT THE MONETARY AUTHORITIES PLAN TO KEEP THE RATE OF CRUZEIRO DEVALUATIONS APACE WITH THE HIGH LEVELS OF INTERNAL INFLATION AND A DETERIORATING BALANCE OF PAYMENTS POSIHION. DAZA JUST RELEASED BY THE GETULIO VARGAS FOUNDATION SHOW
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PAGE 02 BRASIL 06187 161238Z

THAT THE RIO COST-OF-OIVING THROUGH AUGUST WENT UP BY 23.1 PERCENT

OVER THE SAME PERIOD LAST YEAR (FOR DETAILS SEE SEPTTEL).
FINANCE MINISTER SIMONSEN PUBLICLY ANNOUNCED A FEW DAYS
AGO THE REVISED OFFICIAL FORECASTS FOR THE BALANCE
OF PAYMENTS IN 1974, WHICH INDICATE A CONSIDERABLE UPWARD
REVISION OF THE DEFICITS. ON THE TRADE ACCOUNT, THE REVISED
DEFICIT WAS ESTIMATED AT \$3.5 BILLION, AS OPPOSED TO THE
\$1.5-2.0 BILLION MENTIONED EARLIER IN THE YEAR. THE CURRENT
ACCOUNT BALANCE WAS PROJECTED BY SIMONSEN AT \$6.0 BILLION,
AS COMPARED WITH THE \$3.5 BILLION LEVEL INDICATED BY THE
MINISTER AT THE TIME OF SECRETARY SHULTZ' VISIT IN MARCH. IN
ADDITION, THE MINISTER NOTED THAT BRAZIL HAS DEBT
AMORTIZATION OBLIGATIONS IN 1974 OF \$1.8 BILLION, WHICH MEANS
THAT THE TOTAL FINANCING REQUIRED (CURRENT ACCOUNT PLUS DEBT
AMORTIZATION) IS \$7.8 BILLION. DESPITE THIS LARGE DEFICIT,
SIMONSEN WAS HOPEFUL IN HIS REMARKS THAT BRAZIL CAN CONTINUE TO
ATTRACT ENOUGH CAPITAL SO AS TO BALANCE THE ACCOUNTS WITHOUT DIPPING
INTO OFFICIAL RESERVES. HE NOTED, HOWEVER, THAT BRAZIL MAY
HAVE TO REVIEW THE CURRENT TEN-YEAR MINIMUM TERMS FOR FOREIGN
FINANCIAL LOANS SINCE THESE TERMS PRESENTLY PROVIDE A DISINCENTIVE TO
THE FLOW OF FUNDS INTO BRAZIL. THE DAILY O GLOBO OF AUGUST 15 CARRIES
FRONT-PAGE STORY PREDICTING THAT AUTHORITIES WILL SHORTLY
CHANGE THE MINIMUM TERMS FOR FINANCIAL LOANS TO SEVEN FROM
TEN YEARS.
CRIMMINS

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